CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

January 6, 2005

H.R. 4324
Thrift Savings Plan Open Elections Act of 2004

As cleared by the Congress on December 7, 2004, and signed by the President on December 21, 2004

SUMMARY

H.R. 4324, enacted as Public Law 108-469, amends the United States Code with respect to the timing of contributions by federal employees to the Thrift Savings Plan (TSP) and imposes certain reporting and other requirements on the Federal Retirement Thrift Investment Board. Section 1 of the act eliminates the restriction that federal employees could begin or change their contributions to the TSP only during the open-season periods, which occurred every six months. It also eliminates time restrictions on initial enrollment, allowing new employees to enroll any time after being hired. Section 2 of the act defines educational and reporting requirements for the Federal Retirement Thrift Investment Board.

The Congressional Budget Office estimates that H.R. 4324 will decrease revenues by $9 million over the 2005-2009 period, and by $24 million over the 2005-2014 period. Reductions in revenue will arise because some wages will no longer be subject to individual income taxes when they are earned. Also, the act will affect spending and collections of the U.S. Postal Service, which are off-budget, but CBO estimates that those changes will have no significant net effect on direct spending over the 10-year period.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the impact of Public Law 108-469 on revenues and direct spending over the 2005-2014 period is shown in the following table.

	By Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Changes in outlays (off-budget)	1	-1	0	0	0	0	0	0	0	0
Changes in receipts	-1	-2	-2	-2	-2	-2	-3	-3	-3	-4

BASIS OF ESTIMATE

Background

The TSP is a tax-deferred, defined-contribution pension plan open to most federal employees and members of the uniformed services. In 2004, federal employees who were covered by the Federal Employees' Retirement System (FERS) could contribute up to 14 percent of basic pay to their TSP account up to the Internal Revenue Service (IRS) statutory maximum ($13,000 in 2004); the contribution limits rise to 15 percent and $14,000 in 2005. In 2004, employees who were covered by the Civil Service Retirement System (CSRS) and members of the uniformed services could contribute up to 9 percent of basic pay up to the IRS maximum; that percentage rises to 10 percent in 2005. Participants who are 50 years old or older can make additional contributions up to a specified limit. The program maintains nearly 3 million accounts; approximately 2.3 million participants currently make their own contributions.

Employees who are covered by FERS are also eligible to receive contributions from their employing agency. Agencies automatically contribute 1 percent of basic pay toward the TSP accounts of employees who are covered by FERS, regardless of whether the employee is making a contribution. Employing agencies then match employee contributions up to 5 percent of pay. Agency matches are dollar for dollar on the first 3 percent of employee contributions and 50 percent on the next 2 percent. Agency contributions begin after the second open season after an employee becomes eligible to participate in the TSP. CSRS employees and members of the uniformed services do not receive agency contributions to their TSP accounts.

Before enactment of H.R. 4324, newly hired federal employees and members of the uniformed services had a 60-day period in which they could begin making TSP contributions. If they failed to do so, employees had to wait until an open-season period to begin making contributions. Open seasons run each year from April 15 to June 30 and from October 15 to December 31. In addition, current TSP participants could only change their contributions during an open-season period. Participants could elect to increase or decrease the amount of money they contributed during those periods, with changes effective during the first pay period after the close of the open season. Participants could choose to terminate their TSP contributions at any time, although they had to wait until the second open season after contributions were terminated before they could start contributing again.

H.R. 4324 allows new employees to begin making TSP contributions any time after they begin work and allows participants to change their contributions at any time. Once a participant elects to change his or her contribution amount, the change will take effect almost immediately. The act places no limit on how many times participants may change contributions, or how large such changes can be, as long as they remain within the overall contribution limits. Changes to agency contributions that will be initiated by changes to participants' contributions will also take effect immediately. The act will not affect when agency contributions begin for newly eligible employees—those will still start after the second open season after which an employee is first eligible to participate in the TSP.

Revenues

CBO expects that this act will result in more contributions to the TSP. Because income taxes are deferred on TSP contributions, the anticipated increase in contributions initially will result in lower income tax revenue. Assets in the TSP and earnings on those assets are subject to tax when they are withdrawn. However, this offsetting revenue pickup is projected to be very small during the 10-year projection period. Social insurance taxes will not be affected by the act, as wages invested in TSP remain subject to social insurance taxes. CBO estimates H.R. 4324 will reduce income tax revenue by $1 million in 2005, $9 million over the 2005-2009 period, and $24 million over the 2005-2014 period.

Direct Spending

CBO anticipates that H.R. 4324 will affect contributions from employees of the U.S. Postal Service just as it will those from employees of other federal agencies. Thus, TSP contributions from Postal Service employees will increase slightly, as will agency matching contributions for those in FERS. However, unlike most other agencies, the Postal Service has the ability to increase its income to cover increases in its operating costs, which are classified as direct spending. CBO assumes the act will increase the Postal Service's matching contributions (which are off-budget) by $1 million to $2 million annually, but that such increases will be offset by increased receipts from postal rates. Such changes may not be simultaneous, so there could be some small net effect on direct spending in any particular year. Consequently, CBO estimates that direct spending will increase by $1 million in 2005, but that this sum will be offset by an increase in net receipts in 2006 and beyond; both effects will be off-budget.

In addition to granting increased flexibility for participants' contributions, H.R. 4324 also will require the Federal Retirement Thrift Investment Board to periodically study and report on efforts to educate TSP participants about the financial products and services that the program offers. Operations of the board are funded from forfeitures of the automatic 1 percent agency contribution for employees who separate before vesting and from a share of earnings on TSP contributions. CBO estimates that the act will cause no significant increase in the Board's administrative costs.

PREVIOUS CBO ESTIMATES

On September 27, 2004, CBO transmitted a cost estimate for H.R. 4324, as ordered reported by the House Committee on Government Reform. That version of H.R. 4324 would have eliminated open seasons for employee contributions. The bill also would have required agencies to begin making contributions as soon as an employee is eligible to participate in the TSP, rather than delaying the start of such contributions until after the second open-season period. CBO estimated that this version of H.R. 4324 would decrease tax revenues by $4 million in 2005 and $56 million over the 2005-2014 period. We also estimated the bill would affect spending and revenues collected by the U.S. Postal Service, but that those changes would result in no significant change in net spending over the 10-year period.

On June 17, 2004, CBO transmitted a cost estimate for S. 2479, as ordered reported by the Senate Committee on Governmental Affairs. Like the version of H.R. 4324 cleared by the Congress and signed by the President, this act would have eliminated the open-season restrictions placed on employee contributions, and would have required the Thrift Savings Board to report on efforts to increase retirement education efforts. CBO estimated S. 2479 would reduce tax revenue by $1 million in 2005 and $23 million over the 2005-2014 period.

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